

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY	)	
CORPORATION FOR APPROVAL OF THIRD	)	
PARTY NATURAL GAS SUPPLY AND ASSET	)	CASE NO.
MANAGEMENT AGREEMENT AND FOR A	)	2015-00161
DEVIATION FROM THE PRICING	)	
REQUIREMENTS OF KRS 278.2207	)	

ORDER

On May 19, 2015, Atmos Energy Corporation (“Atmos”) applied for approval of a natural gas supply agreement (“New Supply Agreement”) with Atmos Energy Marketing, LLC (“AEM”) and for a deviation from the affiliate pricing requirements set forth in KRS 278.2207(1)(b). No person has sought intervention in this proceeding. In addition to the application, the record contains Atmos’s response to Commission Staff’s request for information. No hearing was requested in this matter. By this Order, we approve the proposed New Supply Agreement and grant the requested deviation.

Atmos states in its application that its gas supply agreement, currently held by AEM and approved by the Commission in Case No. 2011-00201 for its Kentucky service area served by Texas Gas Transmission Corporation (TGT) Trunkline Gas Company (Trunkline) and ANR Pipeline Company (ANR), will terminate on October 31, 2015.<sup>1</sup> On March 13, 2015, Atmos issued a Request for Proposal (“RFP”) through electronic mail notifications for its firm supply requirements and for asset management

---

<sup>1</sup> Case No. 2011-00201, *Application of Atmos Energy Corporation for Approval of Third Party Gas Supply Agreements and for Deviation from the Pricing Requirements* of KRS 278.2207 (Ky. PSC Oct. 13, 2011).

of the transportation and storage contracts for the Texas Gas Transmission Corporation, Trunkline Gas Company, and ANR Pipeline Company portion of its system.

The RFP was viewed by 25 potential suppliers, two of which submitted proposals, with one bidder submitting two proposals. Based upon its analyses of the bids contained in the three responses to its RFP, Atmos states that it determined that AEM's proposal is in the best interest of Atmos and its ratepayers and will produce greater savings as compared to the competing bids. The term of the proposed contract is for the 60-month period beginning October 31, 2015.

AEM is a wholly owned subsidiary of Atmos Energy Holdings, LLC, which is wholly owned by Atmos Energy Corporation. As a result of this relationship, any transaction between Atmos and AEM must comply with the pricing requirements of KRS 278.2207 unless the Commission grants a deviation. KRS 278.2207 provides, in pertinent part:

- (1) The terms for transactions between a utility and its affiliates shall be in accordance with the following:  
  
...  
  - (b) Services and products provided to the utility by an affiliate shall be priced at the affiliate's fully distributed cost but in no event greater than market or in compliance with the utility's existing USDA, SEC or FERC approved cost allocation methodology.
- (2) A utility may file an application with the commission requesting a deviation from the requirements of this section for a particular transaction or class of transactions. The utility shall have the burden of demonstrating that the requested pricing is reasonable. The commission may grant the deviation if it determines the deviation is in the public interest.

Atmos has requested a deviation from these requirements. In support of its request, Atmos states that the contract is the result of a competitive bidding process; therefore, the price cannot be at AEM's fully distributed cost. Atmos also asserts that the competitive bidding process establishes that the cost of the services is not greater than the market cost.

In its Order in Case No. 2002-00245<sup>2</sup> approving Atmos's gas supply agreement with AEM, the Commission noted the recommendations of Liberty Consulting Group ("Liberty") regarding Atmos's RFP process in a management audit Liberty conducted in 2002. Liberty recommended several modifications to Atmos's RFP process to ensure that all bidders receive the same information. Specifically, information supplied in response to a bidder's question regarding an RFP should be submitted to all bidders. In response to a Staff request for information, Atmos provided its Gas Supply Information and Procedures Manual, which outlines the steps Atmos takes to ensure that its affiliate receives no preferential treatment in its RFP processes.<sup>3</sup>

Atmos has requested confidential treatment of its proposed gas supply agreement, the specific information contained in the bids submitted in response to its RFP, and its analysis of those bids.

The Commission, having reviewed the information and analysis provided and being otherwise sufficiently advised, finds that:

---

<sup>2</sup> Case No. 2002-00245, *Application of Western Kentucky Gas Company, a Division of Atmos Energy Corporation, for Approval of Third Party Gas Supply Agreement and for a Deviation of the Pricing Requirements of KRS 278.2207* (Ky. PSC Dec. 3, 2002).

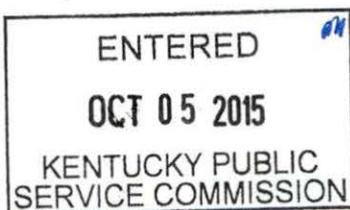
<sup>3</sup> Atmos's Response to Commission Staff's Initial Request for Information, Item 4.

1. The proposed transaction with AEM will provide the greatest savings as compared to the other bids, is reasonable, and is in the public interest.
2. The requested price is reasonable.
3. Atmos's request for deviation from the requirements of KRS 278.2207 is in the public interest and should be granted.

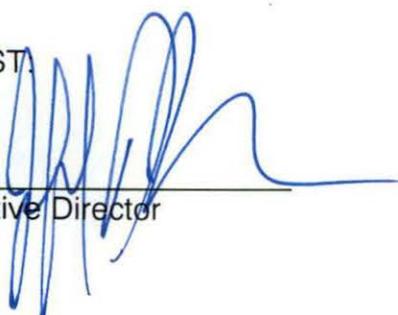
IT IS THEREFORE ORDERED that:

1. Atmos's proposed gas supply agreement with AEM is approved.
2. Atmos's request for a deviation from the pricing requirements of KRS 278.2207 is granted.

By the Commission



ATTEST:

  
\_\_\_\_\_  
Executive Director

\*Atmos Energy Corporation  
3275 Highland Pointe Drive  
Owensboro, KY 42303

\*Honorable John N Hughes  
Attorney at Law  
124 West Todd Street  
Frankfort, KENTUCKY 40601

\*Randy Hutchinson  
Wilson, Hutchinson & Littlepage  
611 Frederica Street  
Owensboro, KENTUCKY 42301